

3. Forecasts for Consolidated Financial Results for the Fiscal Year Ending March 31, 2022 (April 1, 2021 to March 31, 2022)

(Million yen, figures in percentages denote year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share (Yen)
Full year	42,000	1.0	1,500	(46.2)	1,500	(48.7)	1,000	(30.2)	45.93

(Note) Revisions to results forecasts published most recently: No

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) has been applied from the beginning of the first quarter, and the above forecasts for consolidated financial results are those after applying the said Accounting Standard.

The Company purchased treasury shares following a resolution of a meeting of the Board of Directors held on December 22, 2021. Profit per share in forecasts for consolidated financial results reflect the impact of the purchase of treasury shares as of December 31, 2021.

* Notes

(1) Significant changes in subsidiaries during the first nine months under review (changes in subsidiaries causing a change in the scope of consolidation): No

(2) Application of special accounting treatment to the preparation of consolidated financial statements: Yes

(3) Changes in accounting policies and changes or restatement of accounting estimates

1. Changes in accounting policies associated with the revision of accounting standards, etc.: Yes
2. Changes in accounting policies other than 1.: No
3. Changes in accounting estimates: No
4. Restatement: No

(4) Number of shares outstanding (common shares)

1. Number of shares outstanding at the term end (including treasury shares)
 - FY2022/3 Q3: 23,900,000 shares
 - FY2021/3: 23,900,000 shares
2. Number of treasury shares at the term end
 - FY2022/3 Q3: 2,128,761 shares
 - FY2021/3: 94,870 shares
3. Average number of shares outstanding
 - FY2022/3 first nine months: 23,203,159 shares
 - FY2021/3 first nine months: 23,803,020 shares

*** Quarterly consolidated financial statements are placed outside the scope of quarterly reviews performed by a certified public accountant or an audit corporation.**

*** Explanation regarding the proper use of results forecasts and other important notes**

(Disclaimer regarding forward-looking statements)

Forward-looking statements such as results forecasts provided in this document are prepared based on currently available information and assumptions that are deemed reasonable, but the Company does not intend to guarantee their achievement. Actual results may differ significantly from the above forecasts for a variety of reasons, such as the spread of COVID-19. For conditions regarding the assumptions for results forecasts and notes on the use of results forecasts, etc., please refer to page 5 of the accompanying materials "1. Qualitative Information on Financial Results for the First Nine Months of the Fiscal Year Ending March 31, 2022, (3) Explanation on future forecast information such as consolidated results forecasts."

1. Qualitative Information on Financial Results for the First Nine Months of the Fiscal Year Ending March 31, 2022

(1) External environment and the Company's initiatives in the first nine months under review

During the first nine months under review, the Japanese economy continued to be affected by the spread of COVID-19, experiencing sluggish economic activity in a range of businesses, including non-manufacturing businesses such as tourism, transportation and restaurants, in particular, due to the declaration of a state of emergency. There were, however, positive signs for the future, mainly reflecting the downward trend in the number of new infections due partly to progress with vaccination, the lifting of the state of emergency and pre-emergency measures against COVID-19 at the end of September, and improving overseas economies. However, a global shortage of semiconductors due to a surge in demand and a global increase in energy-related prices prevented a full-scale recovery of business activities. Additionally, earlier this year, prefectures began priority measures to prevent the spread of the Omicron variant in response to a rapid increase in the number of Omicron cases. The situation remains unpredictable.

In this situation, INES Corporation (“the Company”) strived to protect its customers, partners, and employees from the risk of infection, for instance, by continuing to reduce face-to-face sales activities, while also maintaining a system corresponding the new normal, including employees’ teleworking and staggered working hours, teleconferencing, social-distancing in the workplace, and satellite offices.

In addition, as we approach a new post-COVID-19 era in which DX is expected to accelerate markedly, the Company established a new dedicated organization in April 2021 to better promote digital transformation (DX) and accelerate a shift to a new business portfolio. The Company also implemented a major shift of personnel in existing business divisions and moved forward actively with marketing and sales activities, research and development and the development of human resources.

The Company delivered solutions using AI to multiple local governments and other organizations in cooperation with the Mitsubishi Research Institute Inc. (“MRI”) Group. This is one part of the results the Company has produced based on the business and capital tie-up agreement with the MRI Group concluded in May 2018.

On the financial front, the Company started to purchase treasury shares in August 2021 to achieve an ROE of 7%, a target set in the medium-term management plan, and increase shareholder return. The Company is continuing to purchase shares on the market to acquire 5 billion yen of shares in total by March 2022. As announced by the Tokyo Stock Exchange in January 2022, the Company’s stock, which is listed on the First Section of the Tokyo Stock Exchange, will be listed on the Prime Market of the TSE from April 2022.

Going forward, the Company will provide a range of solutions in response to the standardization of local government systems, which is planned in 2025, and the digitalization of government in accordance with the progress of the local government DX promotion plan formulated by the Ministry of Internal Affairs and Communications in December 2021. The Company will strongly support the digital transformation of local governments and the private sector.

(2) Details of operating results

The Company applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter the “New Standard”) at the beginning of the first quarter of the fiscal year under review. For the first nine months of the previous fiscal year and the periods before that, results before the application of the New Standard are presented.

Consolidated net sales for the first nine months under review declined 0.5% year on year, to ¥28.5 billion, roughly on par with the previous year, chiefly due to an increase in net sales in the Public sector (please refer to “Net sales and operating profit in the first nine months for the past five years” below).

In the Public sector, net sales rose 3.5% year on year, reflecting BPO projects related to COVID-19

vaccinations and welfare benefits.

In the Financial and General Industry sectors, sales had been falling significantly in the first nine months of the previous fiscal year due to the impact of COVID-19. In the first nine months under review, however, reflecting a recovery in demand for IT investments, net sales increased year on year both in the Financial sector and the General Industry sector. At Group companies (posted under “Other” in the “Consolidated net sales by sector” section), net sales declined 17.8% year on year in the first nine months under review, mainly due to the reduction of the scale of major bidding projects that had been contributing to sales growth until the same period of the previous year.

Looking at sales by product and service category, sales from operations increased, reflecting the expansion of BPO projects in the Public sector.

On the profit side, operating profit fell 31.4% year on year, to ¥1,284 million, and ordinary profit fell 29.2%, to ¥1,371 million, largely reflecting a review of the software investment strategy in anticipation of the national government’s standardization of local government systems which is planned in 2025, a one-off increase in costs, including infrastructure development costs, in response to the new normal created by the COVID-19 pandemic as well as rising research and development expenses for the DX of local governments, in addition to lower sales at Group companies and other factors. Profit attributable to owners of parent increased 19.5% year on year, to ¥824 million, mainly due to a reactionary decline due to the absence of an impairment loss in association with the sale of owned real estate that we posted in the same period of the previous year.

Net sales and operating profit in the first nine months for the past five years (Million yen)

	Q3 of FY2017	Q3 of FY2018	Q3 of FY2019	Q3 of FY2020	Q3 of FY2021
Net sales	23,911	26,403	29,713	28,647	28,500
Operating profit	305	1,204	2,214	1,873	1,284

Consolidated net sales by sector (Million yen)

Category/Term	Nine months ended December 31, 2020		Nine months ended December 31, 2021		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
Public	11,237	39.2	11,632	40.8	3.5
Financial	8,044	28.1	8,252	29.0	2.6
General industry	4,929	17.2	4,967	17.4	0.8
Other	4,435	15.5	3,647	12.8	(17.8)
Total	28,647	100.0	28,500	100.0	(0.5)

Consolidated net sales by product/service (Million yen)

Category/Term	Nine months ended December 31, 2020		Nine months ended December 31, 2021		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	11,015	38.5	10,904	38.2	(1.0)
System operation	9,312	32.5	10,111	35.5	8.6
System maintenance	3,509	12.2	3,662	12.9	4.4
Sales of information equipment	1,023	3.6	627	2.2	(38.8)
Other	3,786	13.2	3,195	11.2	(15.6)
Total	28,647	100.0	28,500	100.0	(0.5)

(3) Explanation on future forecast information such as consolidated results forecasts

The consolidated financial results forecast and dividend forecast published on October 29, 2021 remain unchanged.

(Caution on future forecast information)

Forward-looking statements such as results forecasts provided in this document are prepared based on currently available information and assumptions that are deemed reasonable, but the Company does not intend to guarantee their achievement. Actual results may differ significantly from the above forecasts for a variety of reasons, such as the spread of COVID-19.

Quarterly Consolidated Financial Statements and Important Notes

Quarterly consolidated balance sheet

As of December 31 and March 31, 2021

(Million yen)

	FY2020 (As of March 31, 2021)	3Q of FY2021 (As of December 31, 2021)
ASSETS		
Current assets		
Cash and deposits	10,602	9,492
Notes and accounts receivable - trade	10,522	-
Notes and accounts receivable - trade, and contract assets	-	6,704
Securities	2,300	2,300
Work in process	760	797
Raw materials and supplies	73	49
Prepaid expenses	400	430
Deposits paid	-	1,944
Other	578	77
Allowance for doubtful accounts	(15)	(13)
Total current assets	25,222	21,783
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,548	3,626
Accumulated depreciation	(2,814)	(2,954)
Buildings and structures, net	733	672
Tools, furniture and fixtures	4,260	4,691
Accumulated depreciation	(3,083)	(3,476)
Tools, furniture and fixtures, net	1,177	1,215
Land	3	3
Total property, plant and equipment	1,914	1,890
Intangible assets		
Software	3,595	3,170
Other	24	24
Total intangible assets	3,620	3,195
Investments and other assets		
Investment securities	13,947	13,786
Long-term prepaid expenses	878	745
Deferred tax assets	4,513	4,419
Other	1,164	1,115
Allowance for doubtful accounts	(0)	-
Total investments and other assets	20,503	20,066
Total non-current assets	26,038	25,152
Total assets	51,261	46,935

Quarterly consolidated balance sheet

As of December 31 and March 31, 2021

(Million yen)

	FY2020 (As of March 31, 2021)	3Q of FY2021 (As of December 31, 2021)
LIABILITIES		
Current liabilities		
Accounts payable - trade	2,343	1,536
Accrued expenses	790	959
Income taxes payable	107	415
Accrued consumption taxes	301	66
Advances received	231	273
Provision for bonuses	1,136	470
Provision for bonuses for directors (and other officers)	69	50
Provision for losses on orders received	350	227
Other	552	888
Total current liabilities	5,884	4,890
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	129	108
Net defined benefit liability	6,168	5,885
Asset retirement obligations	252	267
Other	30	26
Total non-current liabilities	6,580	6,288
Total liabilities	12,465	11,178
NET ASSETS		
Shareholders' equity		
Capital stock	15,000	15,000
Capital surplus	14,582	14,592
Retained earnings	9,725	9,497
Treasury shares	(102)	(3,147)
Total shareholders' equity	39,204	35,941
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(10)	101
Remeasurements of defined benefit plans	(398)	(286)
Total accumulated other comprehensive income	(408)	(184)
Total net assets	38,795	35,757
Total net assets and liabilities	51,261	46,935

Quarterly consolidated statement of income

For the nine months ended December 31, 2020 and 2021

(Million yen)

	First nine months of FY2020 (April 1, 2020 to December 31, 2020)	First nine months of FY2021 (April 1, 2021 to December 31, 2021)
Net sales	28,647	28,500
Cost of sales	22,473	22,495
Gross profit	6,174	6,005
Selling, general and administrative expenses	4,300	4,721
Operating profit	1,873	1,284
Non-operating income		
Interest income	16	42
Dividends income	11	11
Real estate rent	22	-
Dividend income of insurance	22	21
Other	15	27
Total non-operating income	87	102
Non-operating expenses:		
Interest expenses	0	0
Rent expenses on real estate	19	-
Commission for purchase of treasury shares	-	12
Other	3	3
Total non-operating expenses	23	15
Ordinary profit	1,938	1,371
Extraordinary income		
Total extraordinary income	-	-
Extraordinary losses		
Loss on sales of non-current assets	2	-
Loss on retirement of non-current assets	5	0
Loss on sale of investment securities	-	7
Impairment loss	765	5
Contract cancellation fees	-	52
Total extraordinary losses	773	66
Profit before income taxes	1,164	1,304
Income taxes	474	480
Profit	689	824
Profit attributable to owners of parent	689	824

Quarterly consolidated statement of comprehensive income

For the nine months ended December 31, 2020 and 2021

(Million yen)

	First nine months of FY2020 (April 1, 2020 to December 31, 2020)	First nine months of FY2021 (April 1, 2021 to December 31, 2021)
Profit	689	824
Other comprehensive income		
Valuation difference on available-for-sale securities	(16)	112
Remeasurements of defined benefit plans, net of tax	123	112
Total other comprehensive income	106	224
Comprehensive income	796	1,048
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	796	1,048

Quarterly consolidated statement of cash flow

For the nine months ended December 31, 2020 and 2021

(Million yen)

	First nine months of FY2020 (April 1, 2020 to December 31, 2020)	First nine months of FY2021 (April 1, 2021 to December 31, 2021)
Cash flows from operating activities		
Profit before income taxes	1,164	1,304
Depreciation	1,657	1,923
Impairment loss	765	5
Increase (decrease) in provision for bonuses	(830)	(665)
Increase (decrease) in provision for bonuses for directors (and other officers)	4	(19)
Increase (decrease) in provision for losses on orders received	(51)	(122)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	6	(20)
Increase (decrease) in retirement benefit liability	328	(121)
Loss (gain) on sales of property, plant and equipment	2	–
Loss on retirement of non-current assets	5	0
Loss (gain) on sale of investment securities	–	7
Contract cancellation fees	–	52
Decrease (increase) in trade receivables	2,974	4,090
Decrease (increase) in inventories	(1,358)	(239)
Decrease (increase) in other assets	(216)	17
Increase (decrease) in trade payables	(343)	(795)
Increase (decrease) in other liabilities	(112)	291
Other	(152)	(10)
(Subtotal)	3,846	5,700
Contract cancellation fees paid	–	(52)
Income taxes refund	34	567
Income taxes paid	(1,785)	(285)
Net cash provided by (used in) operating activities	2,095	5,930
Cash flows from investing activities		
Net decrease (increase) in time deposits	(0)	–
Net decrease (increase) in short-term investment securities	(300)	–
Purchase of property, plant and equipment	(244)	(557)
Proceeds from sales of property, plant and equipment	1,159	–
Purchase of intangible assets	(762)	(685)
Proceeds from sales of intangible assets	1	–
Purchase of long-term prepaid expenses	(282)	(89)
Purchase of investment securities	(77)	(12)
Proceeds from sale of investment securities	–	292
Payments for lease and guarantee deposits	(86)	(57)
Proceeds from refund of leasehold and guarantee deposits	86	105
Payments for asset retirement obligations	(77)	(4)
Other	113	21
Net cash provided by (used in) investing activities	(469)	(987)

Cash flows from financing activities		
Repayments of lease obligations	(15)	(14)
Decrease (increase) in deposits for purchase of treasury shares	0	(1,944)
Purchase of treasury shares	(1)	(3,065)
Proceeds from sale of treasury shares	–	0
Cash dividends paid	(929)	(1,027)
Net cash provided by (used in) financing activities	(945)	(6,052)
Net increase (decrease) in cash and cash equivalents	680	(1,109)
Beginning cash and cash equivalent balance	21,014	10,368
Ending cash and cash equivalent balance	21,694	9,258